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**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Telecommunications Division  
Carrier Branch**

**RESOLUTION T-16906  
December 16, 2004**

**R E S O L U T I O N**

**Resolution T-16906. SureWest Telephone Company. (U-1015-C). Order Adopting Price Cap Mechanism in Compliance with Decision 96-12-074 Through Adjustments to Surcharges to be Effective January 1, 2005.**

**By Advice Letter 1014 Filed on September 28, 2004.**

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**Summary**

This Resolution authorizes SureWest Telephone Company (formerly known as Roseville) a \$0 change to its annual revenues effective January 1, 2005 and to continue to implement its 2005 surcharge rates. SureWest did not seek exogenous cost (Z factor) adjustments in its 2005 price cap filing.

**Background**

**New Regulatory Framework (NRF)**

In Decision (D.) 96-12-074 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for Roseville based on the NRF adopted for SBC (formerly known as Pacific) and Verizon California (formerly known as GTE California or GTEC). The decision requires Roseville to follow the principles of NRF established in D.89-10-031, D.94-06-011, and D.94-09-065.

Following is a brief summary of elements of the Commission's price cap regulation that apply to Roseville:

In D.89-10-031, the Commission adopted an incentive-based regulatory framework for Pacific and GTEC. Prices and rate caps would be indexed annually according to the

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Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment and also adjusted for a limited category of exogenous events, called Z-factors, whose effects are not reflected in the GNP-Pi and are beyond the control of utility management. Only specific types of cost changes were considered Z-factors: changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

Z-factor treatment was not authorized for all unforeseen or exogenous events. Normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions were excluded. Included with the price cap indexing mechanism was a mechanism that shared earnings that exceeded a specified level between shareholders and ratepayers.

Since D.89-10-031, the Commission has subsequently issued several decisions that modified the original NRF program. D.93-09-038, ordered GTEC to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) as the inflation index commencing with GTEC's 1994 price cap filing. The Commission, in D.94-06-011, also ordered Pacific to replace the GNP-PI with the GDP-PI commencing with Pacific's 1995 price cap filing. In D.94-09-065, the Commission authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

With regards to Roseville, the Commission modified Roseville's regulatory framework in D.01-06-077 by: a) eliminating depreciation reviews, b) suspending the I-X portion of the price adjustment formula, c) eliminating Z-factors except to finish implementation of those Z-factors now being implemented and d) establishing a LE factor mechanism for Roseville as established in D.98-10-026. The sharing mechanism continues to apply to Roseville and earnings between the benchmark and ceiling rates of return are to be shared equally between shareholders and ratepayers.

**SureWest's Price Cap Filing**

On September 28, 2004, SureWest filed its 2005 price cap advice letter (A.L. No. 1014) filing to comply with O.P. No. 7 of D.96-12-074. In this filing, SureWest proposed no exogenous Z-factor adjustments to its revenues and therefore the net result of Z-factor adjustments this year is zero. Since there is no Z-factor adjustment to its revenues, SureWest requests authorization to maintain the current level of its surcharges/surcredits.

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1. No change in the current surcharge rate of 4.5238% to be applied to all Local Exchange Services with the exceptions of Category III Services and the taxes and surcharges currently listed in the tariffs.
2. No change in the current surcredit of (2.2452%) as listed in Schedule CAL. P.U.C. No. A 25. This surcredit is to be applied to all intraLATA toll services as listed in Schedule Cal. P.U.C. A 34 and all intrastate WATS/800 service as listed in Schedule Cal. P.U.C No. A36.
3. No change in the current surcredit of (0.2012%) to be applied to all Access Services listed in the Schedule Cal. P.U.C. No.1.

**Notice/Protests**

SureWest states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities, and interested parties, as requested. Notice of Advice Letter 1014 was published in the Commission Daily Calendar of October 6, 2004. No protest to this Advice Letter has been received.

**Discussion**

**Price Floor:**

SureWest's proposed 2005 price floors were reviewed and SureWest applied the inflation factor of 2.17% to its price floor adjustments. For the purpose of adjusting its price floor, SureWest proposes a GDP-PI factor of 2.17% based on the following approach:

- |                                     |         |
|-------------------------------------|---------|
| 1. GDP-PI 2 <sup>nd</sup> Qtr, 2003 | 105.799 |
| 2. GDP-PI 2 <sup>nd</sup> Qtr, 2004 | 108.093 |
| 3. "I" Factor (Ln2-Ln1/Ln1)         | 2.17%   |

For future price cap filings, SureWest shall continue to utilize the GDP-PI Implicit Price Deflator.

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**Telecommunication Division Recommendations:**

The Telecommunications Division concludes that SureWest's Advice Letter No. 1014 meets the requirements set forth in the Commission Orders and G.O. 96-A and recommends that the Commission approve this filing.

Commission approval is based on the specifics of the Advice Letter and the associated contract, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311 (g) (2), the otherwise applicable 30-day period for public review and comment is being waived.

**Findings**

1. On September 28, 2004, SureWest filed its price cap filing A.L. No. 1014, and requests no adjustment in its revenues:
2. SureWest requests to recover their annual revenues by applying:
  - a) No change in the current surcharge rate of 4.5235% to be applied to all Local Exchange Services with the exceptions of Category III Services and the taxes and surcharges currently listed in the tariffs
  - b) No change in the current surcredit of (2.2452%) to be applied to all intraLATA toll and all intrastate WATS/800 services in Schedule Cal. P.U.C. No. A25.
  - c) No change in current surcredit of (.2012%) to be applied to all Intrastate Access Services listed in the Schedule Cal. P.U.C. No.1.
3. SureWest used an inflation factor of 2.17% based on the Bureau of Economic Analysis's GDP-PI Implicit Price Deflator to adjust its price floors.
4. We find reasonable SureWest's zero revenue adjustment request for 2005.
5. No protest to this Advice Letter has been received.
6. We adopt TD's recommendation to approve SureWest's A.L. No. 1014.

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**THEREFORE, IT IS ORDERED that:**

1. SureWest Telephone Company shall adjust its annual revenues by \$0 effective January 1, 2005, as a result of its 2005 annual price cap filing in A.L. No. 1014.
2. SureWest shall continue to implement 2003 Price Cap billing surcharge rate of 4.523% as applied to all Local Exchange Services, (2.2452%) for IntraLATA Toll and all intrastate WATS/800 and (0.2012%) for intrastate access service, to become effective on January 1, 2005, subject to review and approval by the Commission's Telecommunications Division. Adopted surcharges are shown in Appendix B.
3. The revisions to SureWest's price floors filed in A.L. No. 1014 are adopted and shall be effective January 1, 2005.

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This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 16, 2004 adopted this Resolution. The following Commissioners approved it:

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STEVE LARSON  
Executive Director

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**Appendix A  
Resolution T-16906  
SureWest Telephone Company  
2005 Price Cap Filing**

	<b>Roseville Proposed Revenue Impacts</b>	<b>Adopted Impacts</b>
<b>One-Time Adjustments</b>	\$0	\$0
Ongoing LE- Factors	\$0	\$0
<b>TOTAL</b>	<b>\$0</b>	<b>\$0</b>

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**Appendix B  
Resolution T-16906  
SureWest Telephone Company  
2005 Price Cap Filing  
(Adjustments by %)**

	Current Surcharge/ surcredit	Roseville Proposed Surcharge/ Surcredit	Adopted Surcharge/ Surcredit
Access	(0.2012%)	(0.2012%)	<b>(0.2012%)</b>
Local	4.5238%	4.5238%	<b>4.5238%</b>
Toll	(2.2452%)	(2.2452%)	<b>(2.2452%)</b>